Revised Docket No. 00-0714
ICC Staff Exhibit 2.0

Redacted

DIRECT TESTIMONY

OF

ERIC LOUNSBERRY

ENGINEERING DEPARTMENT

ENERGY DIVISION

ILLINOIS COMMERCE COMMISSION

ILLINOIS POWER COMPANY

2000 PURCHASED GAS ADJUSTMENT RECONCILIATION

DOCKET NO. 00-0714

JUNE 2001

OFFICIAL FILE

ILL. C. C. DOCKET NO. 00-0714

ICC Staff EXH. NO. 2.0 Rev.

Witness

Date 8-7-01 Reporter CB

1. Q. Please state your name and business address.

A. My name is Eric Lounsberry, and my business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

2. Q. By whom are you employed and in what capacity?

A. I am employed by the Illinois Commerce Commission as the Gas Section Supervisor of the Engineering Department of the Energy Division.

3. Q. Please state your educational background and work experience.

A. I received a Bachelor of Science degree in Civil Engineering from the University of Illinois and a Master of Business Administration degree from Sangamon State University (now known as University of Illinois at Springfield). I have worked for the Illinois Commerce Commission since 1989.

4. Q. What are your primary responsibilities and duties as the Gas Section Supervisor of the Energy Division's Engineering Department?

A. I assign my employees or myself to cases, provide training, and review work products over the various areas of responsibility covered by the Gas Section. In particular, the responsibilities and duties of Gas Section employees include performing studies and analyses dealing with day-to-day, and long term, operations and planning of the gas utilities serving Illinois. For example, Gas Section employees review purchased gas

adjustment clause reconciliations, rate base additions, levels of natural gas used for working capital, and utility applications for Certificates of Public Convenience and Necessity. They also perform gas meter audits.

5. Q. What is the purpose of this proceeding?

A. On November 8, 2000, the Commission initiated its annual reconciliation of the Purchase Gas Adjustment ("PGA") for fiscal year 2000, as filed by Illinois Power Company ("IP" or "Company"), pursuant to Section 9-220 of the Illinois Public Utilities Act ("Act"). This investigation was initiated to determine whether IP's PGA clause reflects actual costs of gas and gas transportation for the twelve-month period ending December 31, 2000, and whether those purchases were prudent.

6. Q. What is your assignment in this proceeding?

A. My assignment is to determine if IP's natural gas purchasing decisions made during the reconciliation period were prudent.

7. Q. Do you have any schedules attached to your testimony?

A. Yes. I have the following schedules attached to my direct testimony:

Schedule 1.0	Summary of Adjustments
Schedule 2.0	Gillespie Storage Adjustment Calculation
Schedule 3.0	Gillespie Projected Usage
Schedule 4.0	City-Gate Contract Comparison

8. Q. Have you made a determination as to whether IP's natural gas purchasing decisions were prudent?

A. Yes. Using the Commission's criteria for prudence, I have determined that not all of IP's natural gas purchasing decisions were prudent. In particular, I found IP failed to provide sufficient documentation to support its decisions to retire its propane facility and Gillespie storage field. IP also entered into a contract with an affiliate that was not the least cost decision during the reconciliation period. Finally, IP does not require its affiliate to enter into the same types of contractual arrangements for firm gas supply as it requires all other entities. Based upon my review of the above topics, I recommend the Commission make an adjustment of $1,716,000, in relation to IP's PGA. This calculation is shown on ICC Staff Exhibit 2.0, Schedule 1.0.

9. Q. What criteria does the Commission use to determine prudence?

A. The Commission has defined prudence as:

> [...] that standard of care which a reasonable person would be expected to exercise under the circumstances encountered by utility management at the time decisions had to be made. In determining whether or not a judgment was prudently made, only those facts available at the time the judgment was exercised can be considered. Hindsight review is impermissible.
>
> Imprudence cannot be sustained by substituting one's judgment for that of another. The prudence standard recognizes that reasonable persons can have honest

differences of opinion without one or the other necessarily being 'imprudent'. (Docket No. 84-0395, p. 17).

PROPANE FACILITY RETIREMENT

10. Q. What is your recommendation regarding IP's decision to retire its propane facility?

A. I recommend the Commission find the excess gas costs that IP incurred during the reconciliation period as a result of replacing its propane facility's capacity to be imprudent. This results in an adjustment of $1,273,000. I make this recommendation because IP failed to provide any information showing that it performed an analysis necessary to make a prudent decision regarding the retirement of its propane facility. Without such information, I cannot determine that IP made a prudent decision.

11. Q. What is a propane plant?

A. A propane plant is a facility used by many gas utilities to provide peak capacity during periods of extreme cold temperatures. Propane plants generally consist of a large number of propane tanks and the associated equipment that allows for a propane/air

mixture to be injected into a utility's natural gas system. The propane is mixed with air because the heating value of propane is much higher than natural gas, while the heating value of the propane/air mixture is much closer to that of natural gas.

12. Q. Did IP maintain any propane plants during this reconciliation period?

A. Yes. IP operated one propane plant during the reconciliation period. However, according to the Company's response to Staff data request ENG 2.6, IP decided to retire its plant during the reconciliation period.

13. Q. Why did IP decide to retire the plant?

A. According to the Company's response to Staff data request ENG 2.99, IP's propane facility had reached the end of its useful life and was therefore retired. IP reported that its facility was installed in 1971 and had obsolete refrigeration compressor controls and switchgear. IP further stated that its plant's fire protection and gas detection equipment did not conform to current

standards and, finally, the refrigerated sphere insulation was failing and needed to be replaced.

14. Q. What is the peak day capacity rating of the propane facility?

A. According to the Company's response to Staff data request ENG 2.122, the peak day capacity of its plant is equivalent to 20,000 MMBtu/day. Further, IP maintained about three days' supply of propane at its facility, assuming full operation of the plant.

15. Q. When was the last occasion that IP operated its propane plant during the reconciliation period?

A. IP noted in its response to Staff data request ENG 2.7, that its propane plant produced the equivalent of 15,601 Mcf of natural gas on December 21, 2000. IP further noted that it used its plant on this date to deplete the propane inventory to allow for the future abandonment of its facility.

16. Q. Did the Company prepare any studies or analyses showing the cost to repair and/or upgrade its propane facility exceeded the cost to replace the facility's capacity with other sources of gas supply?

A. No. I asked for all studies, analyses, etc. that supported the Company's decision in Staff data request ENG 2.99, but IP responded with nothing but a list of the problems at its facility.

17. Q. Did IP provide an estimate of the cost for providing a replacement gas supply source to make up for the retirement of its propane facility?

A. Yes. In response to Staff data request ENG 2.122, IP noted that, if it were to reserve an additional 20,000 MMBtu/day of transportation capacity on the Natural Gas Pipeline Company of America's ("NGPL") system at the rate it was paying NGPL at the time the decision was made to retire its plant, it would cost approximately $1,273,000 annually.

18. Q. What actions did IP take during the reconciliation period to replace the peak day capacity of the propane facility?

A. According to the Company's response to Staff data request ENG 2.151, IP planned its portfolio of transportation, storage, and supply to serve a most severe peak day without the propane plant.

19. Q. Could IP have repaired its propane plant and kept it in service?

A. Yes. Almost all machinery can be repaired and kept in service if the owner and operator are willing to make the necessary capital improvements and perform the necessary maintenance. IP's propane plant should be no different.

20. Q. What would have been the cost of repairing IP's propane plant so that it could remain in service?

A. I do not know.

21. Q. Does IP have that repair cost information?

A. Apparently not, since IP failed to provide the information to me when I requested it.

22. Q. What is your recommendation regarding the Company's decision to retire the propane plant?

A. Since IP did not supply the information I needed to determine that its decision to retire its propane plant was prudent, I recommend

that the Commission find IP's decision imprudent and I recommend the Commission find $1,273,000 of the cost associated with obtaining a replacement gas supply for the propane plant to also be imprudent.

23. Q. How did you determine that $1,273,000 is the cost associated with obtaining a replacement gas supply for the propane plant?

A. Since IP stated it had planned its peak day portfolio without using the propane plant's capacity, I assumed IP purchased a transportation contract of a like amount to replace the propane plant's capacity. The $1,273,000 value came from IP's estimate of that cost which was noted above in Q/A 17.

GILLESPIE STORAGE FIELD RETIREMENT

24. Q. Aside from the propane facility, did IP retire any other gas facilities during the reconciliation period?

A. Yes. IP also retired its Gillespie storage field during the reconciliation period.

25. Q. What is your recommendation regarding IP's decision to retire its Gillespie storage facility?

A. I recommend the Commission find the excess gas costs that IP incurred during the reconciliation period as a result of replacing its Gillespie storage facility's capacity to be imprudent. This results in an adjustment of $442,000. I make this recommendation because IP has failed to provide any information to me showing that it performed an analysis necessary to make a prudent decision regarding retirement of the Gillespie storage field. Without such information, I cannot determine that IP made a prudent decision.

26. Q. What basis did IP provide for this retirement?

A. The Company's response to Staff data request ENG 2.113 notes that IP retired the Gillespie storage field due to the age and condition of the plant and that supply alternatives were less costly than upgrading its storage field to meet safety and code standards.

27. Q. Did IP provide you with any documentation to support its contention that the supply alternatives were less costly than upgrading its storage field to meet safety and code standards?

A. No.

28. Q. What was IP's estimate of the cost to upgrade its Gillespie facility?

A. According to the Company's response to Staff data request ENG 2.123, IP did not perform a specific cost estimate for upgrading its Gillespie facility. However, this response did note that IP had conducted an upgrade at another storage field in 1995 that cost $1,020,000. IP noted it had used this value to estimate potential costs at its Gillespie storage field.

29. Q. How does IP's Gillespie storage field compare to IP's storage field that received an upgrade in 1995?

A. The storage field that received the upgrade in 1995 has a peak day withdrawal rate sixteen times greater than IP's Gillespie storage field. IP's Gillespie storage field is only rated for a peak day withdrawal rate of 5,000 MMBtu/day.

30. Q. Is using a cost comparison from a field that is 16 times larger than IP's Gillespie storage field an appropriate method of conducting an evaluation?

A. No. All other things being equal, I would expect IP's smaller Gillespie storage field to be less costly to upgrade. Of course, there could be factors that might increase the cost of upgrading IP's Gillespie storage field, but IP has not provided any information to me that would indicate such factors existed.

31. Q. What specific actions did IP take during the reconciliation period to replace the peak day capacity of its Gillespie storage field?

A. According to the Company's response to Staff data request ENG 2.152, IP planned its portfolio of transportation, storage, and supply to serve a most severe peak day without its Gillespie storage field.

32. Q. What is your recommendation regarding the Company's decision to retire the Gillespie storage field?

A. Since IP did not supply the upgrade cost information I needed to determine that its decision to retire its Gillespie storage field was prudent, I recommend that the Commission find IP's decision imprudent and I recommend the Commission find $442,000 of the cost associated with obtaining a replacement gas supply for IP's

Gillespie storage field to also be imprudent. ICC Staff Exhibit 2.0, Schedule 2.0, shows the calculation of this value.

33. Q. How did you determine the $442,000 value?

A. I assumed IP replaced the capacity from the Gillespie storage field by contracting for 5,000 MMBtu/day in firm transportation capacity and then contracted for a swing contract of a like amount. A swing gas contract allows the delivered amount of gas to vary daily.

The cost for 5,000 MMBtu/day in firm transportation capacity is a pro-ration of the cost IP provided to replace the capacity associated with the propane facility retirement discussed above. The assumed reservation costs to reserve 5,000 MMBtu/day in swing service during the reconciliation period comes from the contracts IP signed during the reconciliation period.

I further assumed that IP's Gillespie storage field would have operated during the reconciliation period in a manner similar to IP's Centralia storage field. I made this assumption in order to estimate the commodity adjustment associated with not having the withdrawal capacity from IP's Gillespie storage field available

during the reconciliation period. On the days that I projected IP's Gillespie storage field would operate, I took the difference between the natural gas withdrawal cost and the highest price that IP paid for natural gas. The commodity adjustment is shown on ICC Staff Exhibit 2.0, Schedule 3.0.

34. Q. Why did you select IP's Centralia storage field as your basis for estimating the Gillespie storage field's activity during the reconciliation period?

A. I selected the Centralia storage field because it is one of IP's smaller remaining storage fields and IP used the storage field primarily for peaking purposes. This activity matched most closely with IP's response to Staff data request ENG 2.124 that noted IP used its Gillespie storage field to provide deliverability and to diversify supply costs.

GAS PURCHASING ACTIVITY

35. Q. Did you discover any gas purchasing activities taken by IP during the reconciliation period that you find questionable?

A. Yes. IP entered into two firm gas supply contracts with an affiliate, Dynegy Marketing and Trade ("Dynegy").

36. Q. What do you recommend regarding those Dynegy transactions?

A. I recommend that IP fully explain why it used different contractual arrangements for its affiliates than any other gas supply entity, that IP explain why it used verbal bids rather than written confirmations when assigning a firm city-gate contract to its affiliate, and that the Commission find $1,000 in gas costs to be imprudent.

37. Q. How did you review the Company's firm purchasing activity during the reconciliation period?

A. I sent IP a data request, ENG 2.35, requesting a bid analysis for all the new or renegotiated contracts signed during the reconciliation period. IP's response was a two page sheet that listed each potential contract by supplier, receipt point, type of service, daily volume, reservation costs, and commodity costs. This analysis also showed the winning supplier and the level of supply selected from that supplier.

38. Q. What types of firm gas supply contracts did IP enter into during the reconciliation period?

A. IP entered into 20 firm gas supply contracts for base, swing and city-gate delivery. Base contracts require the delivery of a set amount of gas every day the contract is in force. Swing contracts allow for the amount of gas delivered on a daily basis to alter or swing normally from zero through the maximum amount allowed by the contract. The base and swing contracts also require IP to maintain an amount of pipeline transportation capacity equal to the contract's maximum levels in order to deliver the gas to its system. However, a city-gate contract does not require the utility to hold any transportation capacity, since the contract requires the supplier to deliver the gas directly to the utility's system (or city-gate).

39. Q. How many firm city-gate supply contracts did IP enter into during the reconciliation period?

A. IP entered into two firm city-gate supply contracts, one that brought gas deliveries from the NGPL interstate pipeline system and the other from the Trunkline Gas Company's ("Trunkline") interstate

pipeline system. The winning bidder for both of those contracts was Dynegy.

40. Q. Did you conduct a further investigation into IP's decision to select its affiliate for these transactions?

A. Yes. I requested copies of the other bids provided for the city-gate contract for delivery off the Trunkline interstate pipeline system. I selected these particular contracts for further review because my review of IP's bid analysis showed that one of the competing bids had offered identical terms and conditions to the winning Dynegy bid, but was not selected.

41. Q. What did you discover as a result of this request?

A. According to the Company's response to Staff data request ENG 2.118, the bid that offered the identical terms had a requirement that the delivery would be on a secondary-within-the-path basis. Secondary-within-the-path means the IP delivery point is not the primary delivery location. This did not meet IP's requirement for firm supply since an interstate pipeline can call a

critical day when conditions warrant, which would eliminate any secondary-within-the-path deliveries.

I also requested to see copies of this other less desirable bid. IP's response to Staff data request ENG 2.129, noted that all the Trunkline city-gate bids were taken verbally and the only support that IP provided was an undated sheet of paper with six gas supplier names on it and various contract prices written on it. IP claimed that this sheet of paper was the totality of the offers made to supply up to 15,000/day of city-gate delivery off the Trunkline system and its basis for entering into the contract with its affiliate.

42. Q. Does taking offers only on a verbal basis and writing down the results follow IP's normal procedures?

A. No. IP stated in its response to Staff data request ENG 2.157 that it is not IP's standard policy to accept verbal bids for firm contracts.

43. Q. Aside from the Trunkline city-gate contract, what other Dynegy contract did you find questionable?

A. IP also entered into a city-gate contract with Dynegy for delivery of supply off the NGPL interstate pipeline system.

44. Q. What did you find questionable about the NGPL city-gate contract?

A. IP said it selected the Dynegy contract over other alternatives because the Dynegy bid had the lowest reservation fee; however, it did not have the lowest commodity cost associated with it.

45. Q. Do you believe selecting a gas supply contract solely based upon it having a lower reservation fee is prudent?

A. No. Using the reservation fee as the sole basis for determining the best contract to select when another portion of the contract also has fees associated with it is not a reasonable approach. Depending upon the amount of gas delivered from the contract with the lowest reservation fee, there is a point where the total gas costs associated with that contract would result in higher gas costs than a contract with a higher reservation, but lower commodity cost.

ICC Staff Exhibit 2.0, Schedule 4.0, compares the actual total gas costs incurred during the reconciliation period for the Dynegy city-

gate contract for delivery off of the NGPL interstate pipeline system to the next best bid that IP received. As this schedule shows, IP experienced an extra $1,108 in total gas costs due to selecting a contract that had a higher commodity rate associated with it.

46. Q. What was IP's basis for using the reservation fee as its basis for selecting the Dynegy contract?

A. According to the Company's response to Staff data request ENG 2.117, reservation fees are paid each day of the contract term, regardless of whether gas flows each day while the higher commodity price is only paid on days when gas is actually flowing. Therefore, IP believed it would be less expensive to select the contract with the lowest reservation fee.

Also, in response to Staff data request ENG 2.156, IP provided a comparison of the gas cost incurred from the Dynegy city-gate contract for delivery on the NGPL interstate pipeline system to the next best bid from the bid analysis. IP's response shows a net savings of $3,277 from selecting the Dynegy contract; however, its analysis includes reservation costs that were incurred after

December 31, 2000, but only counted commodity costs through December 31, 2000.

ICC Staff Exhibit 2.0, Schedule 4.0, is a correction of IP's response and uses the actual number of days that occurred within the reconciliation period for the reservation fees. In this case, IP's basis of using the lowest reservation fee to select its contracts resulted in rate payers experiencing higher gas costs during the reconciliation period.

47. Q. What do you recommend regarding the Dynegy contract for city-gate delivery from NGPL's interstate pipeline system?

A. I recommend that $1,108 of the costs associated with this contract be found imprudent.

48. Q. Do you consider your analysis to be an after-the-fact, hindsight analysis of IP's gas purchasing prudence?

A. No. In fact, I did not conduct a prudence analysis. Instead, I did an analysis of excess gas costs that resulted from IP's imprudent

decision to enter into a gas supply contract after considering only reservation fees and ignoring commodity costs.

My conclusion that IP's decision to enter into this contract is based upon IP's explanation of its decision making criteria. Ignoring commodity costs makes IP's decision imprudent. That fact would not have changed even if my analysis had shown no excess gas costs. Luck can not replace prudence, but it can limit the cost of imprudence.

49. Q. Did IP use its lower reservation cost criteria as the basis for any other firm contracts signed during the reconciliation period?

A. The Company's response to Staff data request ENG 2.35 shows several instances, aside from the above Dynegy contracts, where it selected a contract based upon its lower reservation cost, but which had a higher commodity cost associated with it than other bids. IP signed four contracts during the reconciliation where this took place. These four contracts included three swing contracts that IP signed for delivery on the NGPL interstate pipeline system at the receipt points of Louisiana, Midcontinent, and South Texas. The other contract was also a swing contract whose delivery point

was in the field for delivery on the Panhandle Eastern Pipe Line Company system.

50. Q. What do you recommend regarding those contracts?

A. I request that IP perform the same analysis that I performed in ICC Staff Exhibit 2.0, Schedule 4.0, to demonstrate whether or not the total gas cost incurred for each above mentioned contract during the reconciliation period resulted in gas cost increases or savings to IP's ratepayers versus the next best bid.

51. Q. Are there any other items you find questionable with IP's contractual relationship with its affiliate Dynegy?

A. Yes. It appears that the contractual relationship between IP and Dynegy is different than the relationship that IP had with any of its other gas suppliers during the reconciliation period.

52. Q. What did you find questionable about the contract relationship between IP and Dynegy?

A. During my review of IP's firm contract bid analysis, I requested copies of all the firm Dynegy contracts in force during the reconciliation period. Aside from one contract signed with a company that IP termed a predecessor of Dynegy, all of the information received for each contract was a two page document that Dynegy labels as Exhibit B. Exhibit B contains some very basic information about each contract such as the buyer, seller, delivery period, contract quantity, transporting pipeline, and commodity and reservation fee requirements.

53. Q. How does the use of Dynegy's Exhibit B differ from IP's contracts with other gas supply entities?

A. All other gas supply entities, when entering into a contract with IP, are using what is entitled Exhibit A, which is a one page sheet that confirms the transaction between the entity and IP. However, this one page sheet is part of the Gas Industry Standards Board, Inc. ("GISB") contract. In fact, the direct testimony of IP witness Frank A. Starbody, Illinois Power Exhibit 3.1, page 5 of 8, notes that "Illinois Power typically uses the industry-standard contract form that has been developed by the Gas Industry Standards Board. Use of this industry-standard contract form enables Gas Supply personnel to focus their evaluations on a potential supplier's price

and reliability, without the need to devote significant attention to negotiating other terms and conditions of the transactions."

The GISB contract includes provisions that discuss contract definitions, performance obligations, imbalance procedures, quality requirements, measurement requirements, taxes, title, warranty, indemnity, financial responsibility, and force majeure.

54. Q. Does IP have a contract with Dynegy that includes provisions regarding the same type of material as covered by this GISB contract?

A. No. I have requested on several occasions complete copies of the Dynegy agreements and have never received anything similar to the GISB contract from IP. During discussions with IP personnel, it was noted that the GISB contractual terms also applied to the Exhibit B, however, there is no reference to GISB within Exhibit B so I fail to see how the GISB provisions apply.

55. Q. Do you believe that IP is treating its affiliate in the same fashion as other natural gas suppliers?

A. No. IP does not appear to hold its affiliate to the same standards as those other companies.

56. Q. Your answer above discussed the Dynegy contract as an Exhibit B. What is Exhibit A?

A. I have asked IP this question and requested full copies of all Dynegy contracts in multiple data requests. IP continues to claim that Exhibit B is the totality of its contract with Dynegy and that no Exhibit A exists.

57. Q. Aside from the gas supply contracts discussed above, did IP enter into any other agreements with Dynegy during the reconciliation period?

A. Yes. IP entered into a contract with Dynegy to purchase transportation capacity off of the NGPL system. The agreement for this capacity also consists of a two page document that is marked as Exhibit B and is similar to the Exhibit B used for the gas supply contracts. IP stated that the Exhibit B for this contract is also the totality of the agreement between itself and Dynegy.

58. Q. What sort of terms and conditions are normally associated with transportation capacity off of an interstate pipeline system?

A. Each interstate pipeline is regulated by the Federal Energy Regulatory Commission ("FERC") and must maintain a tariff book that includes all of its terms and conditions for providing transportation service.

59. Q. Do you believe that Exhibit B is the totality of all the above mentioned Dynegy agreements?

A. I find it difficult to believe that Exhibit B is the complete agreement, but if it is true then I am quite concerned. If IP is not getting written assurances for each contract with Dynegy, then it is not doing an adequate job of protecting its ratepayers.

60. Q. What do you recommend regarding the Dynegy contracts discussed above?

A. I recommend that IP provide testimony to explain why it apparently gave Dynegy preferential treatment during the reconciliation period when it entered into firm gas supply contracts. I recommend that

IP provide testimony to explain the complete contents of its firm supply contracts with Dynegy and explain how the GISB provisions apply when no reference is made to those provisions. Finally, I recommend that IP explain how it is able to protect rate payer interests without having a reference to GISB provisions within its gas supply contracts and without having any provisions normally found within a FERC regulated tariff book regarding pipeline transportation capacity.

FUTURE GAS PURCHASES

61. Q. Aside from the gas purchasing decisions where you have determined the Company made imprudent determinations, does Staff have any other issues that it would like IP to consider for future gas purchases?

A. Yes. Staff believes that price stability, as well as the commodity cost of the natural gas, should be a factor in utility purchasing decisions. The recent spike in natural gas prices demonstrates the difficulty consumers face when gas prices rise unpredictably. Greater price stability could mitigate some of the negative impacts currently facing Illinois gas consumers. However, providing this price stability could also result in higher than index natural gas pricing at times.

62. Q. Please explain the meaning of "index natural gas pricing" .

A. In "index natural gas pricing", the price of the natural gas fluctuates with the contract specified "index". The "index" could refer to natural gas pricing data published by commonly used gas industry publications such as "Gas Daily" or "Natural Gas Intelligence". These publications provide pricing information for various delivery points or "Hubs" and for specific time periods such as day, week, or month. For example, a contract for natural gas may define "Daily Price" as the price published in "Gas Daily" for the specific day under consideration and for deliveries to a specific delivery point. To summarize, the contract price for the natural gas is the specified "index price" which fluctuates with the gas market for the delivery point and time period specified.

63. Q. Does Staff have any recommendations for IP regarding future natural gas purchasing practices?

A. Yes. I recommend that IP consider purchasing a portion of its gas supply with contracts not tied to index pricing. I recommend that the Company weigh the risk and the benefits of non-index pricing and develop an appropriate gas purchasing strategy using prudent risk management practices. This strategy should help provide greater price stability for Illinois consumers.

64. Q. Does this conclude your direct testimony?

519 A. Yes.

Summary of Adjustments

Description	Amount
Propane Adjustment (Direct Testimony, p. 8)	$1,273,000
Gillispie Storage Adjustment (Schedule 2.0)	$442,000
Dynegy City Gate Contract (Schedule 4.0)	$1,000
Total	$1,716,000

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Gillespie Storage Adjustment Calculation

	Volume		Rate	
Firm Pipeline	5,000			$318,250
Reservation	5,000	61 Days		$6,100
Commodity (per Schedule 3.0)				$117,328
Total				$441,678

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Gillespie Projected Usage

December	Percent of Maximum	Projected Withdrawals	Gas Cost	Total Cost
(1)	(2)	(3)	(4)	(5)
17				
18				
19				
20				
21				
22				

Cost of December withdrawals $68,538

Column 1 = Date
Column 2 = Percentage of Peak Usage from Centralia Storage Field
Column 3 = Column 2 * 5000
Column 4 = Response to Staff data request ENG 2.95
Column 5 = Column 3 * Column 4

IP's Actual Commodity Cost

Per ENG 2.131

December	Supplier	Rate	Volume	Total Cost
17				
18				
19				
20				
21				
22				

Actual Cost of December Purchases $185,867

Difference $117,328

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City-Gate Contract Comparison

Reservation Calculation

Supplier	Volume	Days	Fee	Reservation Cost
Dynegy Reliant				
Reservation Cost Savings				$3,202

Excess Commodity Cost Calculation

	Actual Volume	Rate Difference	Total
			$4,311

Total Excess Gas Cost	$1,108

Source = ENG 2.156